

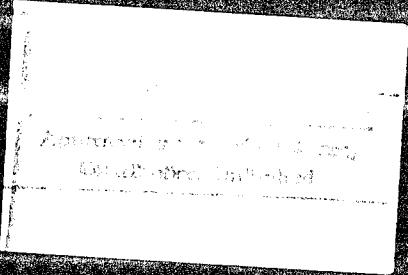
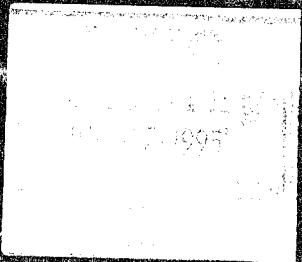
GAO

United States General Accounting Office

High-Risk Series

December 1992

## Defense Inventory Management



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**GAO** United States  
General Accounting Office  
Washington, D.C. 20548

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**Comptroller General  
of the United States**

December 1992

The President of the Senate  
The Speaker of the House of Representatives

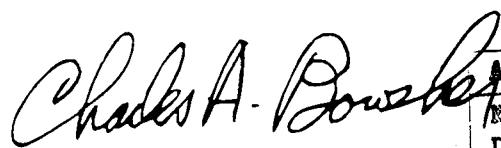
In January 1990, in the aftermath of scandals at the Departments of Defense and Housing and Urban Development, the General Accounting Office began a special effort to review and report on federal government program areas that we considered "high risk."

After consulting with congressional leaders, GAO sought, first, to identify areas that are especially vulnerable to waste, fraud, abuse, and mismanagement. We then began work to see whether we could find the fundamental causes of problems in these high-risk areas and recommend solutions to the Congress and executive branch administrators.

We identified 17 federal program areas as the focus of our project. These program areas were selected because they had weaknesses in internal controls (procedures necessary to guard against fraud and abuse) or in financial management systems (which are essential to promoting good management, preventing waste, and ensuring accountability). Correcting these problems is essential to safeguarding scarce resources and ensuring their efficient and effective use on behalf of the American taxpayer.

This report is one of the high-risk series reports, which summarize our findings and recommendations. It describes our concerns over the Department of Defense's management of supplies that support the military services. It focuses on the Department's continued maintenance of high levels of excess inventory and inadequate systems for determining requirements for supplies.

Copies of this report are being sent to the President-elect, the Democratic and Republican leadership of the Congress, congressional committee and subcommittee chairs and ranking minority members, the Director-designate of the Office of Management and Budget, and the Secretary-designate of Defense.



Charles A. Bowsher

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## Contents

|                                                                                       |    |
|---------------------------------------------------------------------------------------|----|
| Overview                                                                              | 6  |
| Managing DOD's<br>Inventory<br>Presents<br>Challenges                                 | 10 |
| DOD Does Not<br>Use Effective<br>Inventory<br>Management and<br>Control<br>Techniques | 16 |
| Outcome of DOD<br>Initiatives Is<br>Uncertain                                         | 27 |
| Conclusions and<br>Action Needed                                                      | 31 |
| Related GAO<br>Products                                                               | 34 |
| High-Risk Series                                                                      | 38 |



## Overview

The Department of Defense (DOD) maintains inventories of spare and repair parts, clothing, medical supplies, and other support (“secondary”) items costing about \$100 billion. Not only has DOD bought more than it needs, but it has failed to apply standards of economy or efficiency to the purchase, maintenance, and distribution of its inventories. Based on their cost, DOD’s excess supplies total about \$40 billion.

### The Problem

DOD has wasted billions of dollars on excess supplies, burdened itself with the need to maintain them, and failed to acquire the tools or expertise to manage them effectively.

DOD frequently overestimates its supply requirements and ends up buying too much. The reason is that DOD uses inadequate data, fails to use new techniques that would allow lower inventory levels, and believes that keeping large inventories is the way to ensure always being able to fill orders. Using nonstandard, redundant, and overlapping computer systems, the military services and the Defense Logistics Agency independently buy and manage supplies, leaving DOD to make inventory determinations based on faulty and unintegrated data. In addition,

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## Overview

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maintenance of the supplies themselves is inadequate. Weaknesses in DOD inventory records, in-transit controls, computer systems, and physical security programs create rampant opportunities for theft.

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### The Causes

DOD has traditionally failed to stress the importance of proper inventory management or to provide its personnel with the needed tools and incentives to promote satisfactory performance.

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### GAO's Suggestions for Improvement

The solution to these problems lies with a shifting of DOD's organizational culture toward economical and efficient inventory practices. Recent reductions in the threats to national security, along with the ensuing decline in defense budgets, demand that DOD reverse its traditional policy of acquiring supplies with insufficient attention to the enormous expense of buying and storing excess inventories.

DOD has begun to address its inventory management problems, but the services continue to develop systems independently, and plans to link the systems are at different stages of development. We believe that DOD must continue to work toward instilling the

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## Overview

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appropriate priorities, incentives, and attitudes among its supply managers and users and should consider adopting modern commercial inventory practices that have found success in the private sector. In addition, DOD should develop and implement improved performance measures that stress cost-effectiveness and inventory reduction.

DOD has taken several steps that should help improve inventory management. For example, DOD established a Defense Business Operations Fund, which it plans to use to, among other things, charge customers for the full cost of inventory management, and DOD initiated a Corporate Information Management project that aims to simplify and modernize the services' distribution systems and standardize computer systems. Also, DOD has begun to carry out an inventory reduction plan. However, more needs to be done. At our recommendation, the Congress rescinded \$1 billion in past appropriations for secondary items and reduced the fiscal year 1993 budget request by \$3 billion. Since DOD no longer has sufficient funds to support its long-standing business inefficiencies, it is particularly important that DOD generate improved, accurate inventory data; develop and implement better inventory policies and

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### **Overview**

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procedures; train supply staff in more effectively managing inventory operations; and bring sustained, high-level commitment to making DOD inventory management more efficient and cost-effective.

## Managing DOD's Inventory Presents Challenges

In the 1980s, DOD had abundant funds available to procure secondary items. As a result, DOD now has a huge, widely dispersed inventory that is unnecessarily difficult to manage, expensive to maintain, and highly vulnerable to fraud, waste, and mismanagement. Between 1980 and 1990, the value of DOD's inventory of secondary items increased from \$43 billion to about \$100 billion, based on cost. This inventory includes consumable and repairable items—such as spare and repair parts; clothing; electronics; and medical, construction, and industrial supplies.

Our work over a number of years shows that DOD continued to buy and store items that greatly exceeded its operational and war reserve needs. During the 1980s, DOD's excess, or unrequired, inventory increased at a faster rate than its overall inventory. In 1991, over 40 percent of the inventory of secondary items, or over \$40 billion,<sup>1</sup> exceeded DOD's needs. In many cases, DOD's calculations of operational and war reserve needs were flawed, and as a result DOD purchased unnecessary secondary items.

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<sup>1</sup>This figure includes \$30 billion worth of unrequired inventory based on cost and \$10 billion worth of inventory DOD categorized as required. Based on its own requirements formulas, however, this \$10 billion in inventory is not needed.

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**Managing DOD's Inventory Presents  
Challenges**

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DOD has experienced problems in obtaining accurate data about and controlling its secondary items. In addition, after it identifies and buys spare and repair parts needed to support principal items such as tanks, ships, or aircraft (generally for 2 years), each military service and the Defense Logistics Agency buy, manage, and oversee these types of supplies using their individual systems. Each military component independently determines the type and amount of items needed to support current and planned peacetime operations, and each acquires and positions supplies to meet wartime needs.

Because of the large size of the inventory (\$100 billion) and recurring problems, defense supplies are especially subject to fraud, waste, and mismanagement. Consequently, we and the Office of Management and Budget identified defense inventory management as a high-risk area. To address this concern, DOD created and has begun to implement an inventory reduction plan. In addition, in response to our recommendation to reduce funding for buying secondary items, the Congress rescinded \$1 billion in past appropriations for secondary items and reduced the fiscal year 1993 budget request by \$3 billion. With

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**Managing DOD's Inventory Presents  
Challenges**

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the downsizing of the military and the declining defense budget, it is particularly important that DOD generate accurate reports, distribute and implement needed inventory policy and procedures, actively manage inventory, and devote top management attention and commitment to better managing secondary items. DOD is taking steps to reduce inventories, but more needs to be done.

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**Cost of Unmet  
Inventory  
Challenge Is  
Enormous**

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According to DOD's own estimate, its unrequired inventory cost over \$30 billion. Unrequired inventory is material that is not supported by requirements. Requirements generally include war reserve stocks and operating stocks to last 2 years. Unrequired inventory is costly because it represents expended taxpayer funds that cannot be fully recovered when these inventories are disposed of and amounts to billions of dollars each year. In addition, it costs to store and handle these inventories.

Our reviews of each service's inventory have shown a larger rate of growth of unrequired than required inventory during the 1980s. Also, much of the inventory DOD had classified as required was actually unrequired. For example, of the \$39.6 billion

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**Managing DOD's Inventory Presents  
Challenges**

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in inventory the Navy and the Air Force identified in September 1990 as required, we identified \$10 billion in inventory that exceeded the maximum amount needed on hand or on order, as defined by DOD instructions.

The services had built up their stocks of unrequired secondary items for many reasons. From 1980 to 1988, the Air Force increased its required inventory by 179 percent and its unrequired inventory by 295 percent (from \$2 billion to \$7.9 billion). The increase in unrequired inventory resulted primarily because the Air Force overestimated the rate at which inventory would be used. For example, in 1985 the Air Force used a 20-percent condemnation rate<sup>2</sup> in the requirements computation for a case assembly for the F-100 engine, which powers the F-15 and F-16 aircraft. By 1987, the condemnation rate used in the requirements computation was 1 percent based on actual historical data.

The Army's unrequired inventory increased by 168 percent between 1983 and 1988, whereas all inventories increased by 96 percent over the same period. The largest increase in the Army's unrequired inventory,

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<sup>2</sup>The "condemnation rate" is the proportion of items needing repair that it is uneconomical to repair.

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**Managing DOD's Inventory Presents  
Challenges**

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in terms of dollars, was at the Aviation Systems Command, one of the Army's six commodity commands. Its unrequired inventory increased in value from \$207 million in 1983 to \$804 million in 1988. The Command's unrequired inventory increased for three primary reasons: (1) the Army continued to stock items for systems being phased out, (2) forecasted demands for items often did not materialize, and (3) the data base for computing requirements contained erroneous data. Also, the Army did not reduce or cancel planned procurements when it found it did not need the items.

The Navy's total inventory of ship and submarine parts increased by 249 percent, from about \$2.7 billion in 1980 to \$9.3 billion in 1988. In 1988, 40 percent (\$3.7 billion) of the Navy's inventory was unrequired. The major causes for the unrequired inventory were that requirements for items did not materialize, older ships were deactivated, and equipment was replaced and phased out. We found that the Navy had no formal procedures to notify the Ships Parts Control Center of items being replaced or phased out and recommended that the Navy establish procedures to inform inventory control

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**Managing DOD's Inventory Presents  
Challenges**

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points about systems being phased out or replaced.

We also looked at excess inventory held at naval aviation depots. For fiscal years 1987 to 1991, the value of excess inventory ranged from \$40.1 million to \$53.6 million. These large balances remained, even though \$138 million in excess material had been eliminated from depot records through write-offs during these years.

The cost of DOD's excess material should not be measured solely by the costs of acquiring and storing the material. Material that is stored in warehouses may become obsolete or may deteriorate to the point that it is unusable even if it eventually becomes needed. Also, employees faced with materials that are clearly overstocked are more likely to develop a casual attitude about the security and safety of those supplies.

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## DOD Does Not Use Effective Inventory Management and Control Techniques

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For decades, DOD has not effectively managed its inventory. It (1) lacks oversight of all aspects of its inventory and the systems intended to control it, (2) frequently overstates requirements for secondary items and buys excess items, and (3) generally does not ensure that inventory data is accurate or integrated throughout the system and that the inventory is physically protected.

DOD has not kept pace with private industry in updating and streamlining its inventory management practices. At the expense of economy and efficiency, it has overbought secondary items to ensure that it has more than enough supplies. A change in this organizational culture of overbuying and the use of more modern commercial techniques would help DOD to resolve some of its long-standing difficulties in managing its inventory of secondary items.

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### Oversight of Inventory Is Limited

As we have noted in our reports over the years, the Army, the Navy, and the Air Force have not always given secondary item managers the information they need to ensure that they do not buy duplicate supplies. Army policy, for example, does not require approximately \$900 million in

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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inventory held by divisions to be included in either Army-wide logistics or accounting systems. As a result, Army item managers responsible for procuring inventory do not know these items are available. In January 1990, we reported that 13 Army divisions were holding excess spare and repair parts worth \$184 million. The divisions had not reported this inventory to the buying commands, which were procuring 1,669 of the same items for \$66.9 million.

The Air Force and the Navy wholesale item managers also have limited information about excess items at retail activities, such as at Air Force and Navy bases. These managers have purchased millions of dollars worth of unneeded items and have missed opportunities to redistribute assets on hand because they were not aware the assets were available. The Air Force wholesale item managers were aware of only \$1.5 million, or about 5 percent, of the \$32.1 million in excess material at retail activities. In addition, three naval aviation depots held over \$3 million in usable items that could have been used to fill supply system orders but were unrecorded on inventory records.

The Office of the Secretary of Defense also has little oversight over inventory as a whole

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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because the military services and the Defense Logistics Agency have developed and maintained separate data processing systems for common supply management functions. These nonstandard, redundant, and overlapping computer systems seriously impede efficient operations of inventory managers and monitors alike.

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**Requirements Are Often Overstated**

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For years, DOD has experienced problems in determining how much inventory it needs to buy to meet its needs. In a May 1991 summary of 97 reports issued by us and the defense audit agencies over the past 6 years, we cited several reasons for DOD's failure to determine accurate requirements. The primary reason is that DOD maintains inaccurate or unsupported data in its computer systems. Relying on bad data, the services have often overstated requirements by millions of dollars and purchased items they do not need. The lack of accurate data stems from poor management control systems and a lack of oversight.

The Army, for instance, does not exercise enough control over the initial process to acquire spare parts for new systems to ensure that they are fully supported at the least possible cost. According to the Army

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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Audit Agency, the buying commands frequently acquired and fielded more parts than they needed to support new systems. In addition, DOD has not adequately trained or provided guidance to item managers. In one case, the Air Force did not emphasize the importance of using accurate essentiality codes<sup>1</sup> when computing requirements and thus overstated war reserve requirements by \$19.7 million. Finally, when item managers recognize that items on order are unnecessary, they often fail to cancel the orders because they want to avoid the termination of contracts. As of March 1991, DOD still had orders for excess material worth \$2.5 billion.

Since our summary report in May 1991, DOD either has failed to use available data or has used inaccurate demand rates to compute requirements. The Air Force, for example, ignored forecasting factors submitted by the contractor to determine spare parts for the F-16 C/D aircraft. Consequently, the Air Force prematurely spent \$43 million for spare parts. In addition, the Air Force's five air logistics centers used inaccurate demand

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<sup>1</sup>The logistics community has long recognized the importance of identifying and measuring the relative merit of maintaining stock of a given item over stocking some other item. Making this differentiation is ordinarily referred to as determining the "essentiality" of an item, and an essentiality code is assigned to each item based on this determination.

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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rates to buy repairable assets, spending \$93.8 million unnecessarily. The Air Force Inspector General reported that internal controls did not ensure that the air logistics centers did what they needed to do to satisfy requirements.

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**Improved Accountability Is Needed**

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DOD lacks financial accountability and control over its multibillion dollar inventory because it (1) does not have accurate, reliable data to support the quantity, condition, and value of items and (2) does not have integrated systems to provide accurate data. Without accurate inventory data, DOD cannot ensure that it can meet readiness demands. If DOD does not know what it has available, it cannot know what to order. Generally, the services' records have not been reconciled with contractors' records or by physical inventories. When we took a physical inventory of items at the Air Force Logistics Command, we estimated that 18.3 percent of the records differed from the actual inventory and that the inventory records for items worth \$14.8 billion erred by about \$2.3 billion. In addition, the Army Materiel Command could not resolve differences between its records and contractor records on items worth about \$11.3 billion. At one location, controls were

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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so poor that instead of attempting to reconcile Army and contractor differences in inventory records, Army officials assumed that any items over 15 months old had been used by the contractor, and they deleted the items from their records. Of the \$12.5 billion spare and repair parts inventory controlled by Army depots, about 35 percent of the recorded quantities were inaccurate by 10 percent or more.

Given the poor records on inventory, it is especially important that DOD physically protect what it has. We, the Federal Bureau of Investigation, and DOD recently reported that the weaknesses in DOD's inventory records, in-transit controls, and physical security programs have created opportunities for theft. Recent criminal investigations documented organized thefts at a defense depot in California, Army depots in Utah and Texas, an Air Force depot in Utah, and a Navy depot in Virginia.

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**A Change in Organizational Culture Is Essential**

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To eliminate imbedded inventory management problems, DOD must change its "organizational culture"<sup>2</sup> to emphasize economy and efficiency. The reduced threat

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<sup>2</sup>"Organizational culture" may be defined as the underlying assumptions, beliefs, values, attitudes, and expectations shared by an organization's members.

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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to national security and declining defense budgets demand a reversal of DOD's past policy of filling orders with little, if any, emphasis on the enormous expense associated with buying and storing excess items.

We obtained views from experts in the private sector on the techniques they have used in changing or perpetuating an organizational culture. These experts agree that an organization's beliefs and values affect the behavior of its members.

According to several of these experts, an organization's decision to change its culture is generally triggered by a specific event or situation. A change in the world situation, international competition, or a severe budget reduction are some events that could provide the impetus for an organizational culture change. For example, the oil shocks of the 1970s and the increase in international, particularly Japanese, competition spurred Ford Motor Company's change in culture.

The experts generally agreed that a culture change is a long-term effort that takes at least 5 to 10 years to complete. Company officials believe that two key techniques are

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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of prime importance to a successful culture change:

- Top management must be totally committed to the change in both words and actions.
- Organizations must provide training that promotes and develops skills related to their desired values and beliefs.

The companies we visited indicated that effecting a successful culture change would require using a combination of many techniques—not just the two most important. Other techniques, of varying importance, include distributing a written statement of the desired values and beliefs to employees; creating a specific management style that reinforces the desired values and beliefs; offering rewards, incentives, and promotions to encourage behavior that reinforces these beliefs; holding company gatherings to discuss these beliefs; developing an organizational structure that is compatible with these beliefs; using systems, procedures, and processes to support organizational values; and using stories, legends, myths, and slogans to communicate these values and beliefs.

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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**DOD Can Save Money by Adopting Commercial Practices**

In 1991, we issued two reports in which we identified opportunities for DOD to save millions of dollars by adopting commercial practices. In each case, we compared private sector practices to specific segments of DOD logistics operations.

For example, we noted that DOD could save millions of dollars by adopting practices the private sector has used to minimize unnecessary expenses. Commercial airlines, for example, are relying more heavily on manufacturers' parts distribution systems to provide engines and spare parts when needed. They also use either a manufacturer or an outside contractor for maintenance services until the reliability of engines is proven through several years of use. The Air Force, on the other hand, bought excess F-108 engines and spare parts worth millions of dollars and acquired excess engine maintenance facilities and equipment to support the F-108 engine, which is commercially derived.

We also found that progressive civilian hospitals have obtained drastic reductions in inventories through improved ordering systems, the use of prime vendors, the standardization of supplies, and better communication with vendors. Vanderbilt

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**DOD Does Not Use Effective Inventory Management and Control Techniques**

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University Medical Center, for example, reduced inventory levels by \$1.7 million, or 38 percent. In contrast, DOD holds vast amounts of medical supplies that are expensive to maintain and often become obsolete before they can be used. DOD hopes to reduce its medical inventory levels by 60 percent in the next 5 years. However, DOD needs to explore the possibility of developing "quick response," "just-in-time," and "stockless" delivery systems in additional areas.

The following are examples of old medical inventory we found when looking at the medical logistics system:

- The Defense Logistics Agency depots were holding about 50,000 packages of radiopaque sponges dated from 1973 to 1980. The Agency issues about 11 packages of these sponges daily, which equates to approximately 13 years of inventory on hand. The Army and the Navy owned approximately 1,500 of these items for wartime purposes. For Operation Desert Storm, the Agency issued 580 packages of radiopaque sponges and almost 100,000 packages of a new sponge that is not radiopaque.

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**DOD Does Not Use Effective Inventory  
Management and Control Techniques**

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- The same warehouse also held about 5,100 robes packed in 1952 and 1967. A newer robe has been bought, but the older robes, owned by the Army and the Navy, were being kept for wartime purposes. However, Agency records indicated that none of these older robes were issued for use during Operation Desert Storm.
- The warehouse also stored many other items not commonly requested by the services. In total, approximately 25 percent of the line items held in this building were over 10 years old, and over 40 percent were at least 5 years old. The oldest item we observed was a patient jacket from 1945. Defense Logistics Agency depots were storing 29,474 of these jackets, which were packed from 1945 to 1983. The depot at Mechanicsburg, Pennsylvania, stored approximately 6,700 jackets, of which about 85 percent were dated from 1945 and 1969. The depots issued about one of these jackets a week.

## Outcome of DOD Initiatives Is Uncertain

DOD recognizes that changes to its business processes are essential. In the last few years, DOD has implemented a number of initiatives that appear to be steps in the right direction for improving inventory management. DOD has much to gain and little to lose by making a major effort now to deal with the long-standing deficiencies in its inventory management systems. Through the Corporate Information Management project, DOD plans to modernize and simplify the military services' distribution systems and standardize computer systems in functional areas such as logistics. Of the \$36 billion savings expected from the project by 1997, approximately half is to be derived through improvements to material management business processes. Also, the establishment of the Defense Business Operations Fund has helped focus DOD on the need to operate its inventory in a more businesslike manner.

Although the Corporate Information Management project is DOD's best hope for attaining the modern computer systems needed to improve inventory management, in the 3 years since it began, the initiative has met with limited success. The logistics portion of the project has been restructured because of problems in making it work. In fiscal year 1992, DOD established the Joint

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**Outcome of DOD Initiatives Is  
Uncertain**

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Logistics Systems Center to integrate the services' logistics policies, procedures, and systems and has recently begun to describe how it plans to streamline its business methods.

DOD is also focusing on automating the existing transportation systems part of the supply chain. However, it is not determining the best, most cost-effective means of resolving transportation problems. As a result, it has spent millions developing redundant transportation systems. DOD lacked accountability for most of the supplies returned to the United States after Operation Desert Storm and therefore jeopardized the safe delivery of supplies worth millions of dollars. Furthermore, DOD does not know how much defense property has been lost or stolen while being transported throughout the continental United States.

Many of the new automated systems will not be implemented for a number of years, while other critical systems have yet to be selected. In the meantime, the services continue to develop separate computer systems. Unless DOD carefully evaluates each of these systems, it runs the risk of wasting time and money on old, inefficient business

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**Outcome of DOD Initiatives Is  
Uncertain**

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methods. More important, it will be doing little to attain the computer systems needed to improve the management and movement of its inventory. While the new automated systems are being designed and developed, DOD will have to continue to rely on existing systems and information for decision-making. During this time it is important that DOD place greater emphasis on improving the data accuracy and operations of the existing systems. This undertaking will require dedicated leadership and cooperation at all levels throughout DOD if savings and efficiencies are to be realized.

Aside from the Corporate Information Management project, DOD has various other initiatives aimed at cost awareness in its business practices. These initiatives, including the financing of repairable inventory items in the stock fund and the establishment of the Defense Business Operations Fund, are aimed at charging the military units the full cost of all inventory items and services provided to them. Previously, when military units needed inventory items, they received the items without paying for them or they did not pay the full cost of the items. The practice of charging the military units full inventory costs should help provide financial discipline

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**Outcome of DOD Initiatives Is  
Uncertain**

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because the units will budget and pay for the items and be accountable for the management and control of the items. Also, this practice should save money by providing the military units incentives to replace items only when necessary. Under another of DOD's initiatives, each service will pay the full cost of storing, handling, and transporting inventory it orders.

DOD also has a plan to reduce inventory, including an aggressive program for disposing of excess inventory. In addition, for 1992, the Congress limited the replacement of inventory to \$0.80 for each \$1.00 in sales. For fiscal year 1993, the Congress has set the limit at 65 percent of sales. Finally, the financial statement audits required by the Chief Financial Officers' Act encourage fundamental improvements.

## Conclusions and Action Needed

Although DOD is taking steps to manage its inventory effectively and economically, major changes are needed at all levels of the inventory system. These changes will translate into significant savings. To achieve these savings, however, DOD's top management will need to (1) change its organizational culture to eliminate the overstocking of items, (2) rapidly increase the use of commercial practices where commercial supply and distribution systems are well established, (3) put in place and monitor improved performance measures that stress cost-effectiveness and inventory reduction, and (4) improve its computer systems to accurately reflect inventory and requirements information. Item managers will need to stop buying items too far in advance, terminate orders for unneeded materials, and clear the warehouses of old, obsolete, and unneeded items.

DOD no longer has sufficient funds to support its long-standing business inefficiencies. Now is the time to make a major effort to improve its supply chain management practices. Although the Corporate Information Management project and establishment of the Defense Business Operations Fund are steps in the right direction, even under the best of

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**Conclusions and Action Needed**

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circumstances, they will not achieve their intended objectives for several years. In the meantime, to realize savings now, DOD must take the following steps:

- Continue its commitment to improving its inventory management operations by (1) developing and using inventory performance indicators that stress cost-effectiveness, such as the inventory turnover rate and the time it takes to deliver an item to a customer once an order has been placed; (2) incorporating these indicators in monthly reports to top management; and (3) providing training to staff on the use of these performance indicators.
- Improve the accuracy of the data used in determining the amount and type of inventory to buy from contractors so that cost-effective decisions are made. This would include improving the accuracy of the data on (1) the amount of inventory on hand and (2) the amount of inventory used by military activities and units.
- Direct the military activities and units to comply with existing policies and procedures, for example, to perform periodic physical inventories, employ

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**Conclusions and Action Needed**

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adequate physical safeguards over inventory, and document adjustments made to the logistical and financial records.

- Improve the accuracy of the data on the quantity, condition, and value of inventory in the existing inventory management systems.

DOD can also realize savings through the closure of supply depots under the 1993 base closure and realignment process. In previous reports, we have suggested actions that will prepare DOD to select depots for closure or consolidation and to create a modern supply system that takes advantage of the latest logistics concepts.

Reductions in force structure and associated operating tempos are translating into reduced demands on the inventory system. Some supplies are being returned to the system as bases are closed. These supplies take longer to process than new supplies, present unique problems, and could impede DOD's inventory reduction efforts. Close congressional oversight is needed to sustain the momentum for reducing inventories and to require DOD's top management to continue its focus on this issue.

## Related GAO Products

Defense ADP: Corporate Information Management Must Overcome Major Problems (GAO/IMTEC-92-77, Sept. 14, 1992).

Financial Management: Immediate Actions Needed to Improve Army Financial Operations and Controls (GAO/AFMD-92-82, Aug. 7, 1992).

Air Force ADP: Status of Logistics Modernization Projects and CIM Impacts (GAO/IMTEC-92-66, July 30, 1992).

Navy Supply: Excess Inventory Held at the Naval Aviation Depots (GAO/NSIAD-92-216, July 22, 1992).

Defense Transportation: Ineffective Oversight Contributes to Freight Losses (GAO/NSIAD-92-96, June 18, 1992).

Defense Inventory: Control and Security Weaknesses Create Opportunities for Theft (GAO/NSIAD-92-60, Mar. 17, 1992).

Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values (GAO/NSIAD-92-105, Feb. 27, 1992).

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**Related GAO Products**

Financial Audit: Aggressive Actions Needed for Air Force to Meet Objectives of the CFO Act (GAO/AFMD-92-12, Feb. 19, 1992).

DOD Medical Inventory: Reductions Can Be Made Through the Use of Commercial Practices (GAO/NSIAD-92-58, Dec. 5, 1991).

Internal Controls: Theft at Three Defense Facilities in Utah (GAO/NSIAD-91-215, Aug. 22, 1991).

Army Inventory: Fewer Items Should Be Stocked at the Division Level (GAO/NSIAD-91-218, July 24, 1991).

Air Force Requirements: Requirement Computations for Aircraft Consumable Items Can Be Improved (GAO/NSIAD-91-201, July 17, 1991).

Inventory Management: Strengthened Controls Needed to Detect and Deter Small Arms Parts Thefts (GAO/NSIAD-91-186, July 17, 1991).

Air Force Logistics: Improved Redistribution of Retail Inventories Needed (GAO/NSIAD-91-165, July 10, 1991).

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**Related GAO Products**

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## High-Risk Series

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Medicare Claims (GAO/HR-93-6).

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### Contracting Issues

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Defense Contract Pricing (GAO/HR-93-8).

Department of Energy Contract Management (GAO/HR-93-9).

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NASA Contract Management (GAO/HR-93-11).

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**High-Risk Series**

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**Management of Overseas Real Property**  
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**Federal Transit Administration Grant  
Management** (GAO/HR-93-16).

**Asset Forfeiture Programs** (GAO/HR-93-17).